Financial Statements of

# SASKATCHEWAN VALLEY POTATO CORPORATION

Year ended December 31, 2002

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# AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of Saskatchewan Valley Potato Corporation as at December 31, 2002 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants

Regina, Canada
February 6, 2003

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## SASKATCHEWAN VALLEY POTATO CORPORATION

### Balance Sheet

As at December 31

| | 2002 | 2001 |
|---|---|---|
| **ASSETS** | | |
| Current: | | |
| Cash | $ 96,406 | $ - |
| Accounts receivable | 554,467 | 439,301 |
| Inventories (note 3) | 808,818 | 2,159,320 |
| Prepaid expenses | 33,260 | 49,716 |
| | 1,492,951 | 2,648,337 |
| Capital assets (note 4) | 1,131,111 | 5,246,135 |
| | $ 2,624,062 | $ 7,894,472 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)** | | |
| Current: | | |
| Bank indebtedness | $ - | $ 47,790 |
| Accounts payable and accrued liabilities | 157,019 | 311,857 |
| Advance from CIC III (note 5) | 2,541,641 | 2,841,641 |
| Deferred revenue | - | 150,295 |
| Current portion of long-term debt (note 6) | - | 273,824 |
| | 2,698,660 | 3,625,407 |
| Long-term debt (note 6) | - | 5,431,636 |
| Shareholders' equity (deficit): | | |
| Share capital (note 7) | 16,590,499 | 16,590,499 |
| Deficit | (16,665,097) | (17,753,070) |
| | (74,598) | (1,162,571) |
| | $ 2,624,062 | $ 7,894,472 |

(See accompanying notes)

On behalf of the Board:

Director

Director

## SASKATCHEWAN VALLEY POTATO CORPORATION

### Statement of Operations and Deficit

For the Year ended December 31

| | 2002 | 2001 |
|---|---|---|
| Sales | $ 3,481,822 | $ 2,663,516 |
| Cost of Sales | 2,237,459 | 1,920,632 |
| Gross margin | 1,244,363 | 742,884 |
| Operating expenses: | | |
| Salaries and benefits | 180,033 | 646,057 |
| Administration | 188,991 | 349,074 |
| Interest on long-term debt | 282,971 | 351,385 |
| Interest | 1,850 | 21,839 |
| Property taxes and insurance | 69,116 | 262,481 |
| Utilities | 210,163 | 199,684 |
| Bad debt | 133,962 | 781,247 |
| Repairs and maintenance | 53,284 | 103,282 |
| | 1,120,370 | 2,715,049 |
| Earnings (loss) before the undernoted | 123,993 | (1,972,165) |
| Other income (expenses): | | |
| Other income | 138,609 | 214,537 |
| Gain on sale of capital assets (Note 4) | 979,713 | - |
| Amortization | (154,342) | (520,619) |
| Provision for asset impairment | - | (14,300,000) |
| | 963,980 | (14,606,082) |
| Net earnings (loss) | 1,087,973 | (16,578,247) |
| Deficit, beginning of year | (17,753,070) | (1,174,823) |
| Deficit, end of year | $ (16,665,097) | $ (17,753,070) |

(See accompanying notes)

# SASKATCHEWAN VALLEY POTATO CORPORATION

## Statement of Cash Flows

For the Year ended December 31

| | 2002 | 2001 |
|---|---|---|
| **Operating Activities** | | |
| Net earnings (loss) | $ 1,087,973 | $ (16,578,247) |
| Items not effecting cash from Operations: | | |
| Amortization | 154,342 | 520,619 |
| Provision for asset impairment | - | 14,300,000 |
| Gain on sale of capital assets | (979,713) | - |
| Change in non-cash operating working capital | | |
| Accounts receivable | (115,166) | 336,685 |
| Inventories | 1,350,502 | (749,312) |
| Prepaid expenses | 16,456 | (5,697) |
| Accounts payable and accrued liabilities | (154,838) | (147,804) |
| Deferred revenue | (150,295) | 138,795 |
| Cash provided by (used in) operating activities | 1,209,261 | (2,184,961) |
| **Financing Activities** | | |
| (Repayment to) advance from CIC II! | (300,000) | 2,194,445 |
| Proceeds from long-term debt | - | 462,139 |
| Principal payments on long-term debt | (5,705,460) | (181,396) |
| Cash (used in) provided by financing activities | (6,005,460) | 2,475,188 |
| **Investing Activities** | | |
| Purchase of capital assets | (12,430) | (480,965) |
| Sale of capital assets | 4,952,825 | - |
| Cash provided by (used in) investing activities | 4,940,395 | (480,965) |
| Net Increase (decrease) in cash | 144,196 | (190,738) |
| (Bank indebtedness) cash, beginning of year | (47,790) | 142,948 |
| Cash (bank indebtedness), end of year | $ 96,406 | $ (47,790) |

(See accompanying notes)

## SASKATCHEWAN VALLEY POTATO CORPORATION

### Notes to Financial Statements

Year ended December 31, 2002

### 1. Nature of business and basis of presentation

Saskatchewan Valley Potato Corporation ("SVPC") was incorporated on May 11, 2000 under the *Business Corporations Act of Saskatchewan* and commenced active operations on June 21, 2000. SVPC is a wholly-owned subsidiary of CIC Industrial Interests Inc. ("CIC III"). CIC III is a wholly-owned subsidiary of the Crown Investments Corporation of Saskatchewan ("CIC"), a Saskatchewan Crown corporation. SVPC is not subject to Federal or provincial income taxes by virtue of this ownership. SVPC's accounts are included in the consolidated financial statements of CIC.

SVPC is primarily a seed potato production and storage company and also provides a full line of handling, marketing, and agronomic services to seed potato growers in the Lake Diefenbaker potato area.

During the year SVPC began a strategic exit from the seed potato production and storage industry. The Corporation sold its storage facilities and related assets in Broderick, Lucky Lake and Riverhurst (Note 4). SVPC under direction and support from its shareholder, will continue to operate its remaining potato industry assets until such time as a sale of SVPC's remaining assets can be consummated.

### 2. Significant accounting policies

(a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Inventories

SVPC seed potatoes in storage are valued at the lower of cost and net realizable value. Cost is defined as all field costs, handling costs, and storage costs incurred prior to December 31 of the production year. Net realizable value is determined based on either contract value or the Saskatchewan Seed Potato Growers Price List, adjusted for shrinkage.

Parts and chemical supplies inventory are valued at cost.

**2. Significant accounting policies (continued)**

(c) Capital assets

Capital assets are recorded at the lower of cost and net recoverable amount. Amortization is provided using the straight-line method and annual rates:

| Asset | Rate |
|---|---|
| Storage sheds | 40 years |
| Handling equipment | 15 years |
| Dedicated equipment | 15 years |
| Transport equipment | 15 years |
| Field equipment | 5 – 10 years |
| Plant and office equipment | 2 – 5 years |

SVPC reviews and evaluates its capital assets for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be recoverable. The net recoverable amount of a capital asset is calculated by estimating its undiscounted future net cash flows together with its residual value. Future net cash flows are developed using assumptions that reflect SVPC's planned course of action for a capital asset given SVPC's best estimate of the most probable set of economic conditions. Inherent in these assumptions are significant risks and uncertainties. It is possible that changes in future economic conditions and the resulting impact on some or all of these assumptions may require a significant reduction in the carrying value of these assets.

(d) Revenue recognition

Seed potato sales are recognized when potatoes are shipped. Storage, handling and agronomic services revenue is recognized as services are provided.

## 2. Significant accounting policies (continued)

(e) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial instruments and the reported amount of revenue and expenses during the reporting period. Actual results could differ from these estimates.

## 3. Inventories

| | 2002 | 2001 |
|---|---|---|
| Seed produced | $ 666,954 | $ 1,600,914 |
| Seed purchased | 117,379 | 523,282 |
| Equipment parts | 12,889 | 3,402 |
| Chemical and supplies | 11,596 | 31,722 |
| | $ 808,818 | $ 2,159,320 |

## 4. Capital assets

| | Cost | Accumulated Amortization | 2002 Net Book Value | 2001 Net Book Value |
|---|---|---|---|---|
| Storage sheds | $ 8,495,761 | $ 8,420,309 | $ 75,452 | $ 3,987,679 |
| Handling equipment | 902,591 | 425,932 | 476,659 | 616,219 |
| Dedicated equipment | 316,335 | 142,875 | 173,460 | 185,857 |
| Transport equipment | 265,596 | 155,274 | 110,322 | 118,207 |
| Field equipment | 597,404 | 309,468 | 287,936 | 312,514 |
| Plant and office equipment | 46,732 | 39,450 | 7,282 | 25,659 |
| | $ 10,624,419 | $ 9,493,308 | $ 1,131,111 | $ 5,246,135 |

During the year SVPC sold Broderick Shed #1, Lucky Lake and Riverhurst Storage facilities, and the Flaking Plant. These assets had a total net book value of $3.9 million and were sold for proceeds of $5.7 million, resulting in a gain on sale of $1 million. The proceeds consisted of $4.95 million in cash and $.75 million note receivable. Due to the uncertainty regarding collection of the note receivable, SVPC has deferred recording this portion of the gain on sale until such time as cash is received.

## 5. Advance from CIC III

SVPC entered into a credit facility with its shareholder, CIC III, whereby SVPC has access to an operating line of credit of $3,000,000 of which $2,541,641 (2001 - $2,841,641) has been drawn at December 31, 2002. The principal on the advance is payable on demand while interest was paid monthly at the Bank of Montreal prime rate less 0.75% up to March 1, 2001. Subsequent to March 1, 2001 and through 2002, the advance was non-interest bearing.

## 6. Long-term debt

| | 2002 | 2001 |
|---|---|---|
| Mortgages payable, due March 2003 with interest at 6.21%, repayable in monthly instalments of $42,764, secured by a first charge on two storage sheds, a general security agreement and guarantee by CIC III | $ - | $ 5,243,321 |
| Demand loan due June, 2006 with interest at prime plus 1 ½% repayable in annual instalments of $92,428, secured by a general security agreement, a first charge on accounts receivable, inventory and equipment, and guarantee by CIC III. | - | 462,139 |
| | - | 5,705,460 |
| Less current portion | - | 273,824 |
| | $ - | $ 5,431,636 |

## 7. Share capital

| | 2002 | 2001 |
|---|---|---|
| Authorized: | | |
| Unlimited number of Class A voting common Shares | | |
| Issued: | | |
| 100 Class A shares | $ 16,590,499 | $ 16,590,499 |

## 8. Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to SVPC by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions with related parties, which are not separately disclosed elsewhere in the financial statements, are as follows:

| | 2002 | 2001 |
|---|---|---|
| Accounts payable | $ 20,657 | $ 6,717 |
| Cost of sales | 262,108 | 217,111 |
| Administration | 19,233 | 99,792 |
| Interest | - | 15,706 |

In addition, SVPC pays Saskatchewan Education and Health Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

CIC provides management services to SVPC without charge.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

## 9. Financial instruments

a) Fair values

The fair value of cash, accounts receivable, advance from CIC III and accounts payable and accrued liabilities approximates the carrying amount due to the short period to maturity.

b) Credit risk

SVPC is exposed to credit risk from the potential default of customers. SVPC mitigates this risk through offset provisions contained in storage and handling services agreements and sales contracts.

## 10. Comparative figures:

Certain 2001 comparative figures have been reclassified to conform to the current year's presentation.

## 11. Contingencies

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2002 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.